

HSBC South Korea Manufacturing PMI®

Deterioration of South Korean manufacturing business conditions eases to marginal pace at start of 2012

Summary

Business conditions in the South Korean manufacturing sector worsened for a sixth successive month during January. This was highlighted by the HSBC South Korea Manufacturing PMI® posting 49.2, up from December's reading of 46.4. However, the latest figure pointed to only a marginal rate of decline.

South Korean manufacturers reported a further reduction in new business received during January, with decreases now registered in each month since August 2011. Continued reports of worsening economic conditions and reduced capacity at clients were reported by panellists as the main factors contributing to the decline in new work intakes. However, the latest contraction in new order volumes eased markedly since December. Similarly, the extent to which new export business fell was weaker than in the previous survey period.

The rate at which output decreased slowed to a marginal rate in January that was the weakest in the current six-month period of contraction. Backlogs of work declined again, but the pace of depletion moderated. Nonetheless, this indicated that spare capacity within the sector persisted. Stocks of finished goods fell as manufacturers continued to pursue initiatives to reduce inventories.

January data signalled a second consecutive monthly reduction in employment in the South Korean manufacturing sector, reflective of lower new orders and ongoing excess operating capacity. Nonetheless, the rate at which jobs were cut remained marginal.

In line with weaker contractions in new business and output, purchasing activity decreased at a slower rate in January. Stocks of purchases were depleted at a moderate pace, as manufacturers continued to favour lower holdings of pre-production inventories. Suppliers' delivery times were broadly unchanged on the month.

Input prices faced by South Korean manufacturers rose at a solid rate in January. Higher raw material prices and unfavourable exchange rate variations were cited as the main drivers of cost inflation. However, output prices were decreased for the third successive month, largely in response to client requests for lower charges.

Comment

Commenting on the South Korea Manufacturing PMI® survey, Ronald Man, Economist at HSBC in Asia said:

"Korea is steering away from a hard landing. Manufacturing conditions have contracted at a slower pace in January, even after accounting for the Lunar New Year. That said, conditions at home remain weak with manufacturing employment continuing to contract. Policy makers will therefore be increasingly pressured to boost economic activity from both monetary and fiscal fronts and ensure the fall remains cushioned."

Key points

- Output and new orders fall at weaker rates
- Spare capacity persists as backlogs and employment decrease
- Output prices reduced again

Historical Overview



Sources: Markit, HSBC.

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Notes to Editors:

The HSBC South Korea Manufacturing PMI is based on data compiled from monthly replies to questionnaires sent to purchasing executives in around 400 manufacturing companies. The panel is stratified geographically and by Standard Industrial Classification (SIC) group, based on industry contribution to South Korean GDP. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

The *Purchasing Managers' Index™ (PMI™)* is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

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